Thank you to the entire LB&I team for your excellent contributions to tax administration in a complex global environment. In 2016, we transitioned into a completely new structure to support our Future State, and we added the Ogden TEFRA Unit to LB&I.

We accomplished all of this while working through a shift in the way we do business – from CIC and DAS/DIF-scored return selection to campaigns, projects, and programs based upon your combined intellect.

Our environment continues to challenge us with a number of legislative changes requiring our attention. One of the most significant changes, the Bipartisan Budget Act of 2015 (BBA), enacted changes to the manner in which audit adjustments of partnerships will be made. We have been challenged to write regulations and implement systemic changes. You will be hearing more about this in the coming year.

We launched a new LB&I Examination Process on May 1, 2016. We redefined taxpayer and examiner roles, ensuring both parties were responsible for working toward an effective resolution of the audit. In addition, Publication 5125, LB&I Examination Process, was issued and IRM 4.46 was updated. We expect a robust feedback loop and are now working to improve the Acknowledgment of Facts procedure based upon feedback from you and stakeholders.

Enterprise Risk Management (ERM) continues to be a top priority for LB&I. Please continue to identify and elevate risks and concerns by bringing them to the attention of your manager. If a potential risk could have impact beyond the local or team level, the manager should elevate it to the next level supervisor and the unit’s risk liaison. We all have a role to play and should think of ourselves as risk managers for that which we control.

Turning to the future, I am very excited by the progress we are making with campaign development. We announced the rollout of 13 campaigns in February 2017. We will continue to evaluate the ideas you have submitted for additional campaigns, and will keep you looped in to the progress we are making.

Training will be important as we move forward into areas of the law that are new for some of our team. Our ability to teach one another and learn from one another, a necessity to achieve a flexible, well trained workforce, will be front and center as we roll out campaigns. Your support and feedback regarding all aspects of campaigns will be necessary for our successful transition.

As we look to the possibility of tax reform, I would ask all of you to remain focused on the important work we do with the law as it currently exists. It is impossible to know what the future brings, but there are a wide range of policy proposals that may bring about corporate tax reform. Whether this happens or not, I commit to you to keep you apprised.

Our Focus Guide covers LB&I priorities for FY2017. We have established the Getting It Right Together website where you can offer your suggestions and stay informed of the changes happening within LB&I.

As always, thank you for your commitment and effort to improve administration of the LB&I base. I look forward to the challenges we face, knowing I lead a fantastic group of professionals dedicated to the important work of tax administration.

Douglas W. O’Donnell
Commissioner, LB&I

Our Guiding Principles

LB&I will use the Agile Model as a method of building its structure. This model contains the following Guiding Principles:

- Cultivate an environment of continuous learning to support a flexible workforce with focused training, foundational skillsets, specialized knowledge, and dynamic tools.
- Use data analytics and examiner feedback to select better work with intended compliance outcomes.
- Employ an integrated set of tailored treatment streams to improve flexibility to address current and emerging issues and to achieve compliance outcomes.
- Drive continual collection and analysis of data and feedback to enhance ability to focus, plan, and execute work, and promote innovation and feedback-based improvement.

Our Staffing

<table>
<thead>
<tr>
<th>Positions</th>
<th>10/1/15</th>
<th>10/1/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership Team</td>
<td>762</td>
<td>674</td>
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<tr>
<td>Administrative Professionals</td>
<td>436</td>
<td>388</td>
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<tr>
<td>Revenue Agent (RA)</td>
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<tr>
<td>Tax Law Specialists</td>
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<td>26</td>
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<tr>
<td>Economist</td>
<td>129</td>
<td>121</td>
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<tr>
<td>Engineering Program</td>
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<td>163</td>
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<tr>
<td>Tax Examiners</td>
<td>85</td>
<td>200*</td>
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<tr>
<td>Tax Compliance Officer</td>
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<td>47</td>
</tr>
<tr>
<td>Other Program Staff</td>
<td>471</td>
<td>445</td>
</tr>
<tr>
<td>Total</td>
<td>5,399</td>
<td>5,167</td>
</tr>
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</table>

* Ogden Campus TEFRA Function Realigned to LB&I
IRS Mission
Provide America’s taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

Equity, Diversity and Inclusion
LB&I understands that diversity is more than a person’s race, national origin, color, ethnicity, sex (including gender identity and pregnancy), religion, age, disability, sexual orientation, parental status, or protected genetic information. Diversity refers to the differences in how we think and naturally do things, cultural diversity, and systems diversity. We strive to respect the diversity of all our employees. In order to ensure we have an inclusive working environment, we take into consideration the way our organization configures opportunities, interacts, communicates, provides and uses information and makes decisions. As an organization we realize that the success of LB&I depends on the diversity of its employees.

FY2017 LB&I Organizational Goals

- Align and enhance compliance activities through the use of the technical and geographic practice areas, promoting knowledge sharing, knowledge management and networking.
- Enhance the taxpayer experience by improving the examination process, using data analytics and strengthening tax community relations.
- Champion campaigns by developing robust strategies that identify and evaluate the issues, using tailored treatment streams and integrated feedback loops.
- Build a flexible workforce by identifying resource skillsets, providing training and tools and enhancing employee engagement through two-way communications, town halls, survey feedback and other activities.
- Support enterprise risk management efforts to identify, recognize and manage risk.

FY2017 Division Priorities

Campaigns
Our future compliance activities consider all potential approaches - not only examinations - to ensure we are using our resources as efficiently and effectively as possible to improve taxpayer compliance.

Campaigns involve:

- A thorough analysis of data to support the identification and evaluation of a compliance issue
- Consideration of potential treatment streams
- Decisions about the resources to deploy
- Identification of training, mentoring, networking, and tools needed

Employees and managers can make submissions to develop campaigns, training and content. Campaigns should be adapted based on feedback.

Campaign Development Portal
The campaign development template is available on the Campaign Development Portal site. LB&I employees may submit a recommendation for a campaign directly through this online portal. We evaluate, scope, and risk assess the proposals to build a campaign with tailored treatment streams and integrated feedback loops. LB&I employees have made hundreds of campaign suggestions since the site went live in FY2016.

Flexible, Well-Trained Workforce
We will provide technical training to support compliance campaigns. Our success depends upon everyone actively engaging in ongoing self-development, team learning, knowledge sharing and mentoring. Continual learning will enable us to effectively identify and adjust to changes in taxpayer compliance behaviors.

The LB&I Virtual Library Bookshelf is the product of our continual and collective learning and will be launched this fiscal year. It is a core resource for managing and sharing our knowledge. It will house Practice Units which provide our current knowledge related to a topic, in three different formats – concept unit (broad overview of topic), transaction unit (shows tax implications of a single transaction), and process unit (procedural process to one or multiple types of exam situations). We all have a critical role in maintaining their currency and accuracy by ensuring they reflect current conditions and behaviors in the LB&I tax compliance environment.

Selection of Better Work
We will improve workload selection by using data analytics to uncover anomalies, hidden patterns, correlations and other insights. The benefits brought by data analytics include accuracy, speed and efficiency. One example, the Lead Classification Repository (LCR), stores and manages unstructured data to facilitate sampling for workload classification. This process, along with others that we are developing, will facilitate the analytics to develop and support campaigns.

Examination plan will shift to a focus on “new starts.” Campaigns will play an important role in determining starts. We will identify the right issues and develop them using the right resources. We will also monitor a high level closure plan for FY2017 that measures our core work in four return categories: Large Business, International Individual, Global High Wealth, and Foreign Payment Practice.

Tailored Treatment
We are framing and organizing our knowledge around types of taxpayers and transactions rather than around code sections alone. We are seeking new opportunities, such as outreach efforts, soft contacts, and published guidance as ways to improve voluntary compliance with our taxpayer base. We will also use existing tools such as Fast Track, Industry Issue Resolutions, and Pre-filing Agreements.

We will complete our review of the Compliance Assurance Process (CAP). We will use the internal and external feedback and our lessons learned to review the program and its viability in the future state.

Integrated Feedback Loop
The integrated feedback loop is an important tool in all of our processes. We will continue to engage our employees through LB&I’s Getting It Right Together (GIRT) website, two way communications, town halls, and other methods. It is critically important that we continue to gather and use feedback from our employees.

LB&I is gathering, preserving and organizing the expertise of our workforce. We want to ensure that our employees have the opportunity to share and connect with others working similar issues.

When dealing with taxpayers in our audits we will engage in factive dialogue and fact sharing. We will seek ongoing issue discussions that will include acknowledgment of the facts to ensure accurate tax determinations. Employees will continue to document the taxpayer’s “Acknowledgment of Facts” for appealed issues.

Offshore Compliance and Foreign Account Tax Compliance Act (FATCA)
Offshore compliance and FATCA will continue to be priorities in FY2017. We will use FATCA data to enhance compliance of United States taxpayers with financial investments abroad as well as United States and Foreign Financial Institutions required to identify account holders and to report account information. We will also continue with the Base Erosion and Profit Shifting (BEPS) program and project activities with emphasis upon those actions with Minimum Standards.

Enterprise Risk Management
LB&I is committed to fostering a culture where everyone feels comfortable identifying risks and proactively manages risks to mitigate impact within our organization. The LB&I Risk Governance Board integrates risk management into the decision-making process, reviews LB&I enterprise risks; and evaluates risks with an impact beyond LB&I to the IRS Enterprise Risk Management (ERM) office. Information about the IRS ERM program is available on the Office of the Chief Risk Officer (OCO) website and the LB&I Risk Management website.